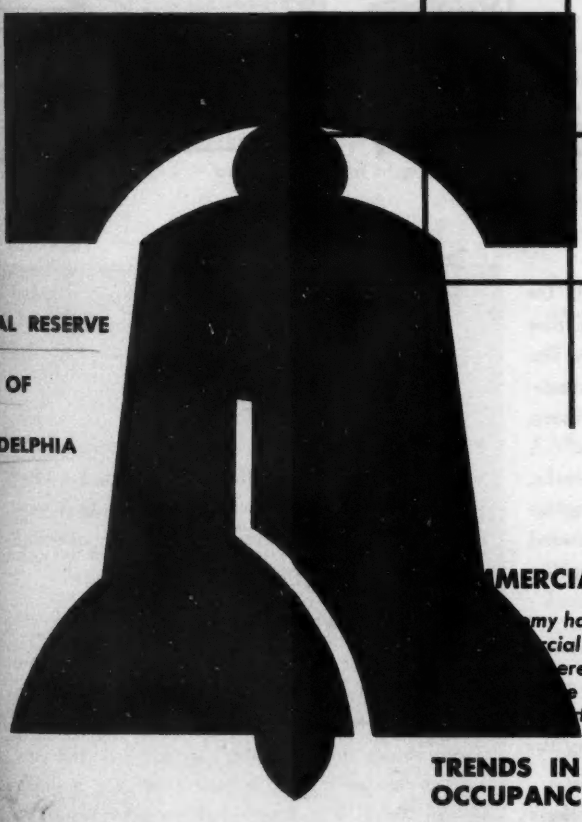
UNE 1956

business review



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tant questions dealt with in this article.

TRENDS IN OFFICE-BUILDING SPACE AND OCCUPANCY IN PHILADELPHIA

A substantial office-building program brings new commercial space on the Philadelphia market. Thus far occupancy has held up well, reflecting needed expansion and a desire for modern quarters.

COMMERCIAL BANKING IN A DYNAMIC ECONOMY

We are living in a world of rapid change. On the economic front there are new industries, new products, and new techniques of production. The emphasis on change is reflected in the advertising slogan of one of our large manufacturers, "Progress is our most important product." A pertinent question for bankers to ponder is, "What about our business; are we keeping up with the times?" This is the question toward which this review of the trends in bank earning assets is directed.

This article deals with three major questions:

1. How does the long-term growth in commercial banking compare with that of the economy and with other financial institutions?
2. Have commercial banks broadened their services over the years, or are they still supplying the same old product?
3. Have the terms on which credit is extended been adapted to meet the changing needs of borrowers?

LONG-TERM GROWTH

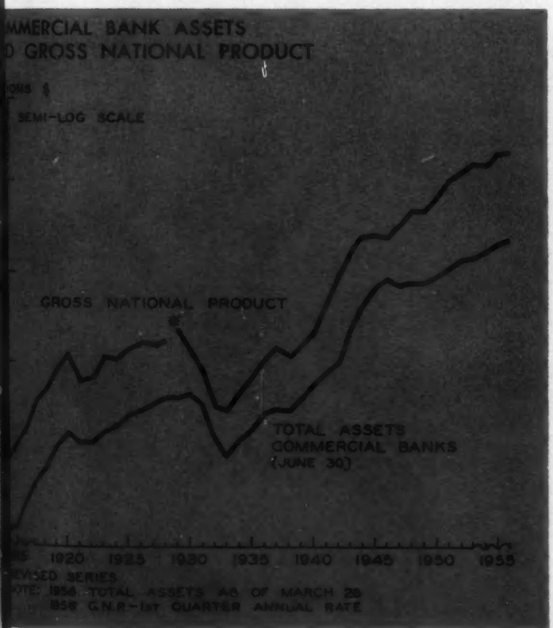
First, let us take a look at the long-term growth of commercial banks. Has commercial banking kept pace with the growth of the economy and other financial institutions? This is a question of particular concern to bankers.

Resource growth similar to the economy

Total assets of all commercial banks at the end of 1955 were nearly ten times larger than in 1914. The chart, which is on a semi-logarithmic scale, shows not only the amount but also the rate of change in bank assets. There was a sharp rise in World War I as banks extended credit in helping to finance heavy war expenditures. After a short interruption during the post-war reces-

sion, bank assets continued to expand during the twenties. The only serious interruption in asset growth occurred during the severe depression of the early thirties. Following that depression, growth was resumed. It was more rapid during the war as banks bought large quantities of Government securities. The rate of growth has been slower in the post-war period despite the sharp upward trend in loans because banks have liquidated a substantial amount of Governments.

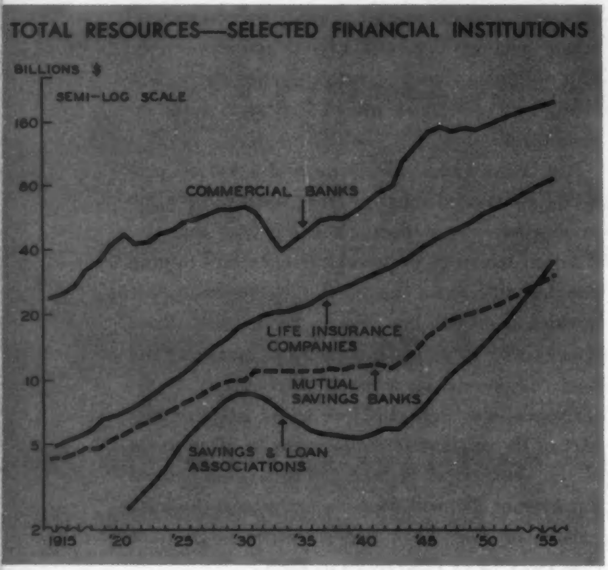
Growth in absolute terms is not too significant. As all of us know, our economy has been expanding rapidly. The important question is, has banking kept pace with the economy? The rate of expansion in commercial-bank assets over the years has been quite similar to the rate of growth of G.N.P.—our total output of goods and services. This is not surprising, as commercial banks provide the bulk of our money supply. The volume of money, except when there is a change in velocity, tends to vary with total expenditures.



The total value of goods and services produced contracted more sharply during the great depression. An important reason was the pronounced tendency to hoard currency and to hold idle deposits. Since World War II the divergence in rates of growth has been in the opposite direction. G.N.P. has risen somewhat more rapidly than commercial-bank assets, particularly in the early post-war period. Here again a significant part of the explanation appears to be an increase in the velocity of deposits. The annual rate of turnover of demand deposits for reporting banks outside of New York and six other large cities rose from 14 in 1946 to 20 in 1955.

Growth pattern similar to other financial institutions

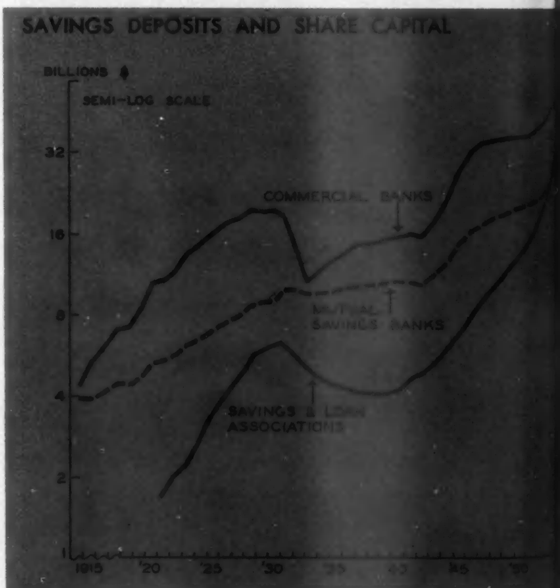
How does the growth in commercial banking compare with that of other financial institutions such as mutual savings banks, life insurance companies, and savings and loan associations? It is apparent that commercial banking is more susceptible to short-term business fluctuations than the other financial institutions, particularly life insurance companies and mutual savings banks. This reflects the relatively wide fluctuations in demand for short-term credit as the volume of business activity expands and contracts. The inflow of savings and therefore the net increase in life insurance company and mutual savings bank assets has been more stable. Assets of savings and loan associations have grown rapidly in periods of active home construction—in the twenties and in the post-war period.



TOTAL RESOURCES—SELECTED FINANCIAL INSTITUTIONS

Commercial banks fell behind in the twenties and particularly during the great depression. The relative decline in the twenties reflected mainly the more rapid rate of growth of savings and loan associations. The resources of savings and loan associations expanded quite rapidly during the housing boom of the twenties. During the decade following the great depression, commercial banks expanded more rapidly than either mutual savings banks or savings and loan associations. In the post-war decade, commercial banks have grown less rapidly than savings and loan associations. The more rapid rate of growth of savings and loan associations reflects the unusually strong demand for home-mortgage credit and the fact that the expansion in bank loans has been offset in part by the reduction in their holdings of Government securities.

Have commercial banks been getting their share of the people's savings? Savings deposits in commercial banks and share capital in savings and loan associations were more sensitive to business fluctuations during the past four decades than savings deposits in mutual savings banks. The most significant development here for commercial bankers is the relative gain of savings and loan associations in the post-war period, particularly from 1945 to 1950. A plausible explanation is that people used savings deposits built up in commercial banks during the war to purchase durable goods as they became available. Other possible reasons are the higher return usually paid by savings and loan associations, and more active advertising and promotion directed especially toward attracting savings. The rate of growth of savings deposits in commercial banks during the past few years compares more favorably with that of savings banks and savings and loan associations than in the early post-war period.

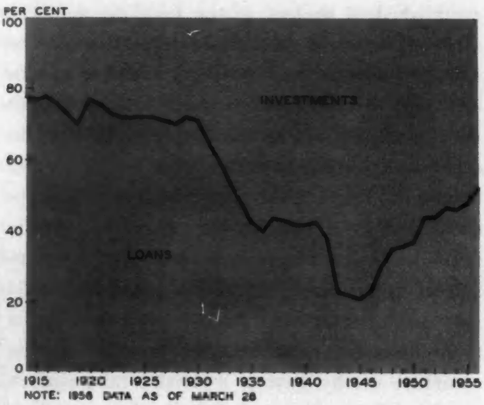


SAVINGS DEPOSITS AND SHARE CAPITAL

Structure of earning assets

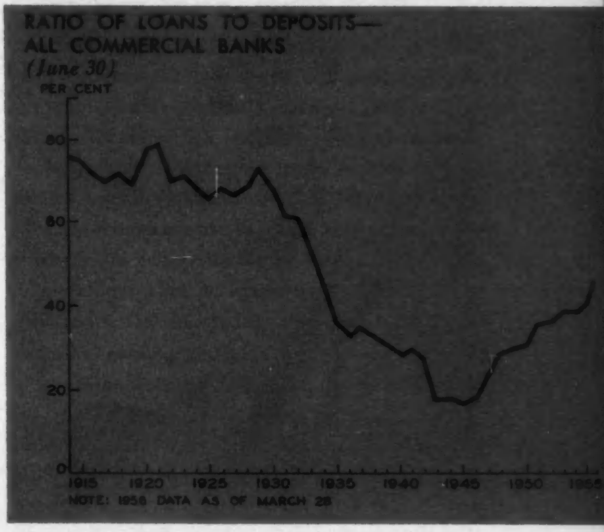
Now let us turn to changes in the major categories of commercial-bank assets. One thing stands out—the general downward trend in loans relative to investments until the end of World War II. The shrinkage of loans was particularly sharp during the great depression and during World War II. In the post-war period, a sharp expansion in loans together with a decline in

EARNING ASSETS—ALL COMMERCIAL BANKS
(June 30)



holdings of Governments have restored loans to a more significant place in the earning-asset structure. Nevertheless, at the end of 1955 loans constituted less than 50 per cent of commercial-bank earning assets as compared to nearly 80 per cent in 1915.

The ratio of loans to deposits is one that many bankers watch rather closely. For three decades the general trend in this ratio was downward—from about 75 per cent in 1915 to less than 20 per cent at the end of 1945. The principal reason for the sharp decline in the thirties and during World War II was the huge increase in bank



holdings of Government securities. Loan expansion in the post-war period together with some liquidation of Government securities have brought the ratio back to more than 40 per cent.

TYPES OF CREDIT EXTENDED

Business firms frequently stress that new products make up a large part of their current sales—products that did not exist a decade or so ago. How does commercial banking measure up in this respect? More specifically, have commercial banks continued to extend the same types of credit during the past forty years or have they moved into new fields? To get at least a partial answer to this question, we should take a closer look at the earning-asset structure. When a commercial bank extends credit it not only creates a deposit, it acquires an asset. Consequently, the asset structure tells us something about the kind of business that banks are doing.

In the early part of this century the real-bills

doctrine was the traditional and dominant theory as to the credit functions of a commercial bank. Briefly stated, this meant that inasmuch as commercial-bank liabilities are payable on demand or short notice, credit should be extended only on the basis of short-term, self-liquidating commercial paper. If bankers only adhered to this principle it was thought that assets would be liquid and bankers would always be in a position to meet the cash demands of their depositors. It is apparent that strict adherence to the real-bills doctrine would have confined commercial-bank credit to narrow segments of the economy.

Although this doctrine was still widely accepted in theory during the twenties, bankers were beginning to depart from it in actual practice. Space does not permit a detailed analysis of the many factors involved. Suffice it to say that as a result of economic and financial developments, business demand for short-term, self-liquidating commercial loans was rapidly dwindling. In 1929, loans constituted about three-fourths of the total earning assets of commercial banks. But about 40 per cent of these loans were made on securities—a type of credit which did not conform to the real-bills doctrine.

Impact of the great depression

The great depression forged drastic changes—in our thinking as well as in economic conditions.

First, it marked the demise of the real-bills doctrine. Commercial bankers, under the pressure of changing events, had already departed from the doctrine in practice but most of them still thought it good in theory. The depression also altered prevailing views about bank liquidity. Banks, particularly the money-market banks, held a large volume of loans on securities. A large part of them were subject to call and were collateraled by highly marketable securities. Bankers considered these loans quite liquid. But when the crisis came and banks began calling their security loans, brokers and dealers had no alternative other than to dump the securities on the market. Security prices broke sharply. The crisis demonstrated that liquidity for the banking system, in contrast to an individual bank, depends not primarily on the type of loan held but the ability and willingness of the Federal Reserve Banks to convert bank assets into cash.

The ability of the Reserve Banks to do so was limited, however. The Federal Reserve System, established in the era of the real-bills doctrine, was fashioned in accordance with that theory. Direct access to Reserve Bank credit could be had only by discounting short-term, self-liquidating, eligible commercial paper or by borrowing on the bank's own note with such paper as collateral. The vanishing supply of eligible commercial paper in member-bank portfolios greatly limited access to Reserve Bank credit. As a result of this experience, the Federal Reserve Act was amended so that banks could borrow on their own notes collateraled by Government securities or, by paying a penalty rate, against any "satisfactory" assets of the bank.

A second influence was the development of conditions which impelled banks toward changes in their lending and investment policies. The dwindling demand for short-term commercial loans has already been mentioned. The growing importance of the corporation and large-scale production together with the rise of new industries, such as the automobile and electrical appliances, brought an increasing demand for intermediate- and long-term funds. Large gold imports built up a substantial volume of excess reserves. Bankers were anxiously seeking outlets for their idle funds. They were also facing in-

creasing competition from nonbank lenders.

These are some of the reasons bankers began to take a new look at types of credit formerly regarded as unsuitable for a commercial bank. Credit for the purchase of consumer goods had generally been frowned upon by both lenders and consumers; yet the experience of sales finance companies indicated that consumer credit was both safe and profitable.

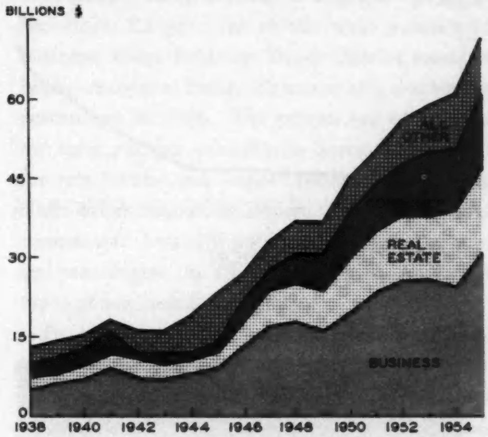
Loans for the purchase of homes, although made by many banks, were typically single-payment loans maturing within three to five years. This was not a liquid loan from the standpoint of the commercial bank; neither was it satisfactory from the point-of-view of the borrower. Savings and loan associations, however, were extending longer-term credit to home buyers with interest and principal repayable in regular instalments. The amortized loan was more suitable for both borrower and lender. In the early thirties, the FHA not only provided insurance for home loans but also popularized the amortization principle.

Term loans to business also emerged following the depression. Such loans came to be regarded favorably by business firms in need of intermediate-term credit for the purchase of machinery, equipment, and other fixed assets. Interest cost to the borrower was generally less than selling securities in a weak market; borrowing from a bank avoided the red tape involved in floating a security issue under the new Securities and Exchange Act; and the provisions of a term-loan agreement could be more readily adapted to changing conditions.

Composition of the loan portfolio

Data on loans reflect the growth of these newer forms of bank credit. Unfortunately, the classification of loans reported by member banks was

MEMBER BANK LOANS—UNITED STATES
(End of year)

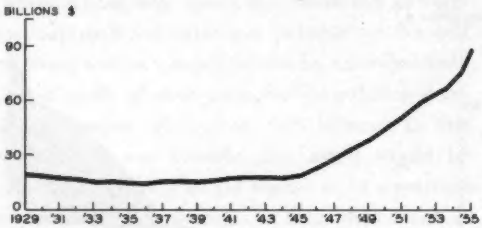


changed drastically in 1938 so that data prior to that time are in no sense comparable. By 1938, however, consumer and non-farm, real-estate loans had grown until each made up roughly one-fifth of the total member-bank loan portfolio. Although only fragmentary data are available, they indicate a considerable growth in term loans to business also. These newer forms of credit have continued to expand rapidly in the post-war period.

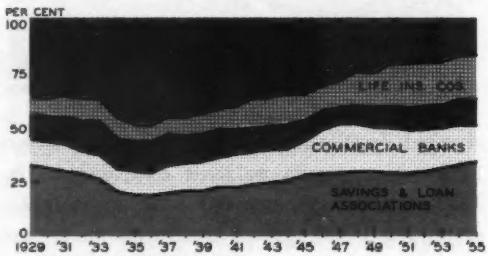
How have commercial banks made out in competition with other lenders in these newer credit fields? In non-farm mortgage credit, commercial banks gained in the decade from 1935-1945 although the increase in their proportion of the total was quite moderate. Banks improved their position substantially in the early post-war period. Life insurance companies and savings and loan associations have also been supplying a gradually increasing proportion of a rapidly rising volume of non-farm mortgage credit.

Commercial banks have become the largest

1- 4-FAMILY NONFARM MORTGAGE CREDIT
(End of year)



PERCENTAGE DISTRIBUTION BY MAJOR HOLDERS



NOTE: 1955 FIGURES PRELIMINARY

single source of consumer instalment credit. Their relative gain was greatest in the early post-war years. Sales finance companies have also gained, particularly in the post-war period, reflecting in large part the high level of automobile sales. The relative gain of sales finance companies in the past two years reflected the sharp rise in instalment credit for financing automobiles, which accounts for the bulk of their financing, and the reluctance of commercial banks to meet the more liberal credit terms that were being extended.

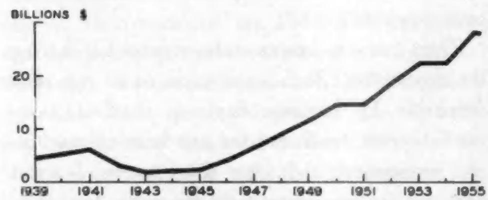
Investment portfolios

The most striking change in commercial-bank investment portfolios is the rise in Government securities from 1930 to 1945, reflecting deficit financing in the thirties and in World War II. Percentage-wise, holdings of corporate, state, and municipal securities declined sharply. Total holdings of these securities, however, have risen moderately in the post-war period, but the principal shift has been from Governments into loans.

TERMS ON WHICH CREDIT IS EXTENDED

Our third major question is whether commercial banks have made progress in adapting the terms on which credit is extended to the changing needs of borrowers. As we have seen, the short-term, single-payment loan was typical among commercial banks prior to the thirties. Data on the terms on which credit is extended are quite limited; however, certain trends are evident.

CONSUMER INSTALMENT CREDIT
(End of year)



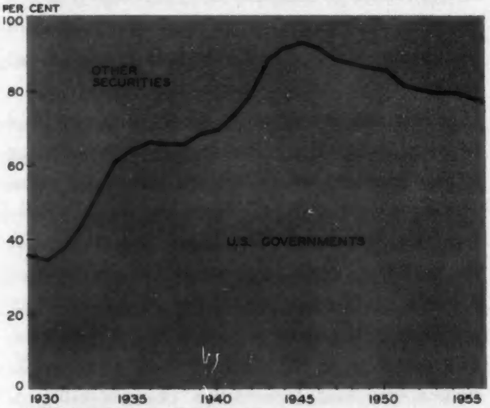
PERCENTAGE DISTRIBUTION BY MAJOR HOLDERS

NOTE: 1956 DATA AS OF MARCH 31

Lengthening of maturities

The tendency since 1930, particularly, has been toward longer maturities. Home mortgages are typically longer-term loans. Although detailed data are not available, information supplied in the housing census of 1940 indicates that the average maturity on non-farm mortgages outstanding—held by all lenders—was roughly eight years. In 1950 it was about fourteen years. Today the average maturity of non-farm mortgage loans is undoubtedly even longer. Although commercial banks have probably not lengthened maturities as much as some other lenders, the trend among banks has been toward longer-term home loans. In recent years the trend in consumer instalment loans has been toward longer maturities, particularly in financing automobile purchases.

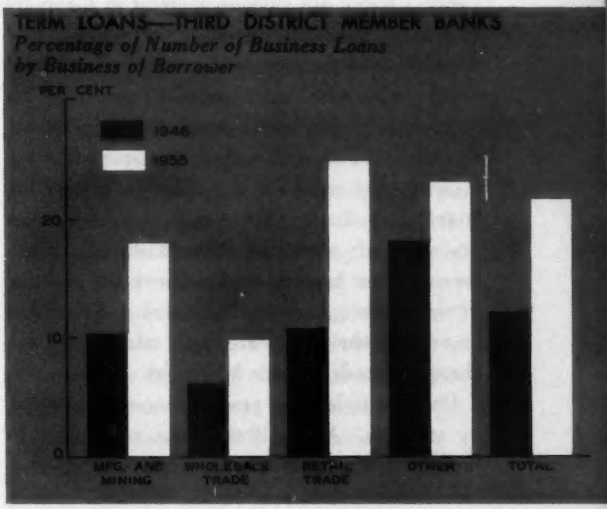
INVESTMENTS—ALL COMMERCIAL BANKS



NOTE: 1956 DATA AS OF MARCH 28

The growth in term loans to business also indicates the trend toward longer maturities. (As used here, term loans refer to those with a maturity in excess of a year.) Thanks to the co-operation of the bankers, the business-loan surveys of 1946 and 1955 provided more definite information on term loans to business. In October 1955, 22 per cent of the total number of business loans held by Third District member banks were term loans. This is nearly double the percentage in 1946. The percentage of term to the total number of business loans was highest for retail trade and "other" businesses which include sales finance, mortgage, and construction companies. You will note, too, that the percentage was higher in 1955 for each of the major types of business than in 1946.

In terms of dollar amount, there was little change in the proportion of term to total business loans. The percentage of the dollar amount of term loans to total loans to manufacturing and mining companies was less in 1955 than in 1946. This probably reflects increasing reliance on retained earnings and declining output in the coal regions. There were significant increases,



however, in the percentages to retail and wholesale trade.

Amortized loan popular

The amortized loan—with interest and principal repayable in instalments — has been widely adopted by lenders in the case of loans with longer maturities. The loan survey of 1955 revealed that about one-third of the number and one-fourth of the dollar volume of business loans of member banks were repayable in instalments. The small banks with total deposits of less than $2 million held about 20 per cent of the business loans repayable in instalments as compared to over 40 per cent for banks with deposits of over $100 million. Term loans repayable in instalments are especially well suited to the needs of many manufacturers, such as petroleum producers and public utilities. The credit needs of these types of borrowers are usually large and typically they deal with the larger banks.

Lending techniques and practices

Lenders today are extending credit in a rapidly changing environment—new industries, new products, new techniques of production, regional shifts in business and population, etc. New industries such as plastics, synthetic fibers, petrochemicals, electronics, and air transportation are growing and some of the older industries are static or declining. New production techniques are constantly rendering old ones obsolete. Bankers and other lenders are faced with the problem of reappraising their lending terms and practices to see whether they are well adapted to the changing needs of their borrowers.

Changes in lending practices cannot be shown by statistics. A few illustrations will suffice to indicate that progress has been made in tailoring loan terms to borrower needs.

The development and growth of term lending and the amortization principle have already been mentioned. Financing equipment purchases, especially in the transport industries, provides another example of progress in lending practices. Transportation companies sometimes incur heavy expenditures in buying new and modern equipment to replace that which has become worn and obsolete. Only recently most of the air lines placed large orders for jet planes. The diesel has almost displaced the steam locomotive on railroads. A company desiring to purchase a quantity of new equipment wants to make sure that funds will be available before placing an order.

A common procedure is for the company first to go to its bank or other lender to arrange for a commitment before placing an order, thus making sure that it can obtain the money to pay for the equipment. The lender then advances the money as the equipment is delivered. Once the entire order has been delivered the outstanding balance is usually refunded into a term loan. The maturity of the loan is often arranged in such a way that depreciation charges will provide a substantial part of the funds needed for repayment.

This same general pattern is used by banks in financing equipment purchases of the transport industries — railroads, air lines, buses, trucks, etc. It illustrates how loan terms have been tailored to meet the particular needs of this group of borrowers.

Construction loans provide another example. While a home or some other building is under construction the builder needs money to buy materials and to pay his laborers. A lender is unwilling to provide permanent long-term financing, however, until the building is completed and sold. This interim need for funds between the

initiation of a construction project, and its completion and the arrangement for permanent financing is typically supplied by banks. It is widely used in home construction. Banks also make term loans to corporations, especially public utilities, to finance construction programs pending the issue of long-term bonds or some other form of permanent financing.

Another adaptation of the term loan to borrower needs is where a mining company or dealer has entered into a contract to supply a large amount of coal to a public utility. Under the contract, the public utility agrees to buy coal according to a regular schedule that meets its own needs. In this case the banker may make a term loan to the coal company. Terms are arranged so that the funds needed for repayment will be largely or wholly provided by payments received from the public utility.

These are only a few of many cases that could be cited to indicate that progress has been made in adapting credit terms to borrower needs.

CONCLUSIONS

Commercial bank resources have grown tremendously in the past four decades. In general, bank growth has kept pace with that of the economy and with other financial institutions such as savings banks, life insurance companies, and savings and loan associations. Banks have also made considerable progress in adapting the terms on which credit is extended to the changing needs of their customers.

Looking to the future, what are some of the lessons that can be learned from past experience? The indications are that the following factors will have an important influence on the future growth and development of commercial banking.

1. What banking does depends largely on how bankers think. So long as the real-bills doctrine was the dominant concept of commercial banking, bank credit was confined to narrow segments of the economy. Not until the course of events compelled a broadening of this concept did commercial banking begin to meet the credit needs of other segments on a significant scale.
2. It is better to be pragmatic than dogmatic. Thirty years ago the typical attitude was that consumer credit, term loans to business, and long-term loans for the purchase of homes were unsound and not suitable for commercial banking. Thanks to the more venturesome spirit of a few pioneers, terms were devised that made these types of credit more suitable both to lender and borrower. Today they constitute the bulk of the commercial-bank loan portfolio.
3. If banks fail to meet the sound and legitimate but changing credit needs of a dynamic economy, other institutions will come in to fill the gap.
4. Bankers face a real challenge and responsibility. Commercial banks and other lenders today are operating within a rapidly changing framework of new industries, new products, and new techniques. The future of commercial banking will be fashioned largely by how *bankers* respond —how well bank officials keep abreast of the times and adapt banking services to the changing needs of a dynamic economy. Bankers, of course, should always keep in mind the danger of making unsound loans and of granting terms inconsistent with the unique character of a commercial bank.

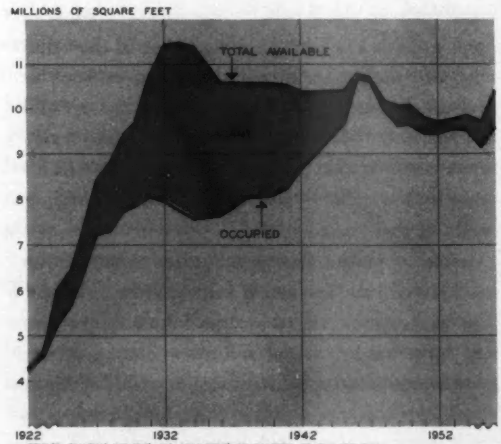
TRENDS IN OFFICE-BUILDING SPACE AND OCCUPANCY IN PHILADELPHIA

Office-building space in Philadelphia little more than filled existing needs through the post-war years to 1955. In the past year, however, the addition of several large blocks of new space has provided tenants with necessary room for expansion and presented a greater opportunity for upgrading to air-conditioned quarters with improved lighting and modern elevator service. Existing tenants in spreading out are absorbing this space rapidly, however, Philadelphia has a fairly substantial office-building program still underway and new space coming on the market late in 1956 and in 1957 may not be taken up so fast. At present it looks as though we might have a temporary problem although there is no indication that we are overbuilding for the longer run.

Occupancy has been well maintained since the war

Tenants of Philadelphia office buildings occupied an all-time high of 10.7 million square feet shortly after the end of World War II. By the spring of 1947 the vacancy rate in center-city buildings was almost nil. However, when the Federal Government began relinquishing large blocks of space acquired through the war years, the rising trend in occupancy that started back in the thirties was reversed. Moreover, in the course of subsequent business readjustments in 1949 and 1953-54, the number of square feet of occupied space in downtown commercial office buildings declined somewhat further. But these developments actually posed few problems for building owners and managers because the total area of available office space also was declining, and only a little less rapidly than occupancy. This was because several large companies completely took over their buildings for their own use and thus took them out of the category of

SPACE IN PHILADELPHIA OFFICE BUILDINGS



SOURCE: BUILDING OWNERS' AND MANAGERS' ASSOCIATION OF PHILADELPHIA

"commercial" office buildings. Virtually all space lost in Philadelphia office buildings during post-war years came off the rental lists as this trend developed. Losses through demolitions of old structures were insignificant.

New space for the rental lists has been needed for a long time.

Over the whole period from the end of World War II until 1955 little new space appeared on the office rental market—with only here and there a reconverted building or an addition or some modernization. So, office-building occupancy has remained high, ranging upwards from 92 per cent over the past decade. As a result, tenants in downtown office buildings found insufficient "elbow room" to allow for expansion or upgrading to modernized quarters. Nor was there much of a choice in space for the few business concerns that moved into Philadelphia. Owners and managers of local office buildings regard an occupancy rate of 95 per cent as satisfactory from an earnings standpoint and a more or less normal figure for the long run.

Demand for modernized quarters has grown rapidly.

The need for expansion among office-building tenants has increased since recovery from the 1953-54 recession. Many tenants have wanted more modern quarters, including air conditioning, lighting refinements and the latest in elevator service, for an even longer period. Air conditioning has expanded rapidly in recent years and current estimates indicate that just over half of our central-city office buildings now offer this convenience. Much has been accomplished along all lines of modernization in the recent past and a great deal more will be done before the end of 1957 if present plans go according to schedule. New buildings and additions and complete reconversions in old ones promise to give Philadelphia's office buildings the greatest "face lifting" in years.

1956 will see a lot of space in new office buildings.

Number Three Penn Center, opened for occupancy in 1955, brought the first single block of new office-building space onto the Philadelphia market in almost a quarter of a century. This building contains more than 400,000 square feet of as modern office space as is available anywhere. The Pennsylvania Lumbermen's Mutual building (representing a complete reconversion of the former Ritz Carlton hotel) was the first to open for business in 1956, offering 180,000 square feet of space. Two entirely new buildings, The Mall, at Fourth and Chestnut Streets, with 150,000 square feet and the Transportation Center with well over 300,000 square feet expect to be receiving tenants before the end of this year. Thus the rental lists for center-city office buildings will be expanded by some 600,000 square feet in 1956. The total of over 1,000,000 square feet—all of it the most modern in design—added in 1955 and 1956 represents the greatest additions made since the depression year 1931.

In the more distant future is the announced intention of Uris Brothers, builders of Number Three Penn Center, to erect another unit in that area. Present plans call for a tower building which, by its very nature, would have somewhat less office floor space than its predecessor. Still another project is the State office building planned at Broad and Spring Garden Streets. This would not add new space for rent in Philadelphia but would create vacancies in present office buildings occupied by State agencies.

. . . and more existing space will be vacated fairly soon.

When duPont and the Gulf Oil Company move into new buildings in the suburbs, they will vacate about 60,000 square feet in downtown Philadelphia. The Philadelphia Transportation Company, now occupying 130,000 square feet, expects to move into their own building in the northern section of the city before the end of 1957. New buildings coming on the market and old ones being vacated offer much more than the means for expansion so many tenants have been wanting. All the space that is coming into sight presents a potential occupancy problem for the owners and managers of central Philadelphia office buildings.

The near future looks generally bright.

For the remainder of this year the Building Owners' and Managers' Association of Philadelphia sees no problem in maintaining an occupancy rate of 90 per cent. And most members of this group seem to expect little difficulty in holding the rate at approximately this level into the early months of 1957. The absorption of space in the past six months has continued at a satisfactory pace and reflects the tendency of existing tenants to expand their present quarters or to move into larger ones. Most reports also indicate a normal flow of inquiries, although mainly for relatively small blocks of space. About the only discouraging factor in the market this spring seems to have been the continuing difficulty of encouraging tenants from out of town to take up quarters in central Philadelphia. Owners and managers of our office buildings all agree that a more active demand from this source may be needed to assure reasonably prompt occupancy of the new space due to come on the market this year and next.

Rental trends are steady.

Office-building managers also tell us the "line is being held" on rentals almost everywhere. What few concessions have been made to hold tenants —or attract new ones—have been isolated instances chiefly in some of the older buildings not yet modernized. Of course, with air conditioning or other modernization, higher rentals have been applied. Rent increases are not in prospect in coming months, nor are significant reductions expected. Operating and maintenance costs have crept upward, consequently the prospect of an indeterminate increase in vacancies seems preferable to a general rate reduction that will surely lower the immediate income from the building.

We are still experiencing competition with the suburbs.

Philadelphia office buildings continue to lose tenants who see some advantages of taking up quarters in suburban areas near the city. Rental differentials are not important, because where they exist at all for comparable facilities they are quite narrow. Automobile parking facilities, however, seem to be an inducement. It is not so much a question of space as of cost. Admittedly, the price of center-city parking is higher than in our suburbs. Philadelphia's mercantile tax, which of course can be avoided by those who take up space in the suburbs, is another factor given serious consideration when a move to a new location is contemplated.

In the past several years the problem of suburban competition has changed somewhat. Initially it concerned relatively minor blocks of space vacated in Philadelphia by small concerns or branch offices of some of the larger ones. This kind of out-migration never assumed very serious proportions, and a few of those who made the move later returned to center-city office

buildings. More recently, however, some sizeable blocks of space have been vacated by entire companies that have built their own office quarters just outside Philadelphia and this trend seems to be continuing. These moves, to be sure, create vacancies that take more time to fill, particularly since they are coming at a time when our overall space is increasing so rapidly.

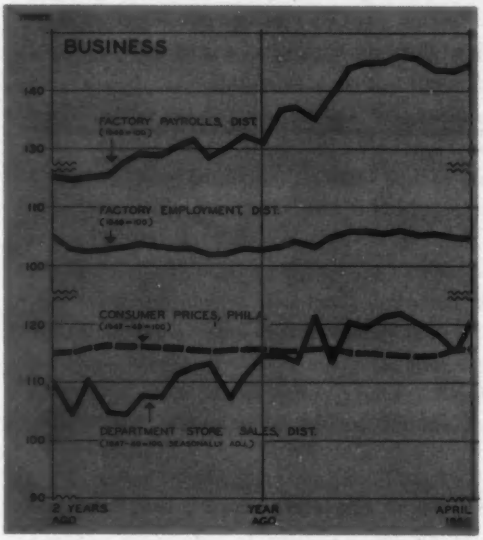
Additional copies of this issue are available

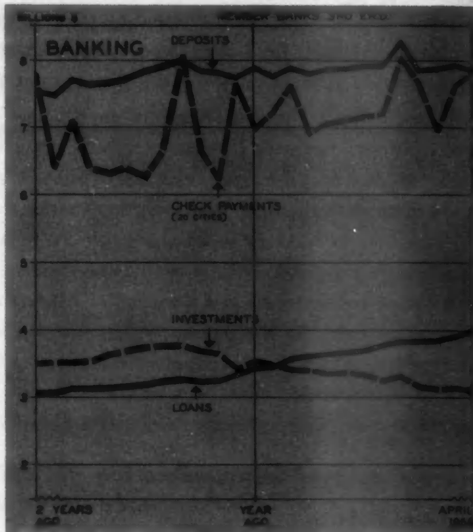
upon request to the Department of Research,

Federal Reserve Bank of Philadelphia,

Philadelphia 1, Pa.

FOR THE RECORD...





SUMMARY	Third Federal Reserve District — Per cent change — April 1956 from mo. ago	April 1956 from year ago	4 mos. 1956 from year ago	United States — Per cent change — April 1956 from mo. ago	April 1956 from year ago	4 mos. 1956 from year ago
OUTPUT						
Manufacturing production	0	+ 4	+ 4	0	+ 4	+ 6
Construction contracts*	+13	+ 1	+ 3	+8	+ 9	+13
Coal mining	+ 8	+20	+13	−1	+18	+17
EMPLOYMENT AND INCOME						
Factory employment (Total)	0	+ 1	+ 1	0	+ 3	+ 4
Factory wage income	+ 1	+10	+10	....	....	....
TRADE**						
Department store sales	+ 5	+ 4	+ 5	0	+ 3	+ 4
Department store stocks	0	+12	....	+1	+10	....
BANKING (All member banks)						
Deposits	− 1	0	+ 1	0	+ 1	+ 2
Loans	+ 2	+17	+18	+1	+18	+17
Investments	− 1	−12	−13	−1	−11	−10
U.S. Govt. securities	− 2	−13	−13	−1	−13	−12
Other	0	−11	−14	0	− 3	− 3
Check payments	+ 2†	+12†	+ 9†	−7	+12	+10
PRICES						
Wholesale	....	....	....	+1	+ 3	+ 2
Consumer	0‡	0‡	0‡	0	+ 1	0

*Based on 3-month moving averages.
**Adjusted for seasonal variation.
†20 Cities
‡Philadelphia

LOCAL CHANGES	Factory* Employment — Per cent change April 1956 from mo. ago	year ago	Factory* Payrolls — Per cent change April 1956 from mo. ago	year ago	Department Store Sales — Per cent change April 1956 from mo. ago	year ago	Department Store Stocks — Per cent change April 1956 from mo. ago	year ago	Check Payments — Per cent change April 1956 from mo. ago	year ago
Allentown	0	+5	+1	+15	....	....	....	....	+4	+15
Harrisburg	0	+9	−1	+20	....	....	....	....	+8	+18
Lancaster	0	+5	0	+13	−26	−14	+12	+13	−3	+10
Philadelphia	0	0	0	+ 8	− 2	+ 1	+ 4	+17	+2	+11
Reading	−1	+2	0	+11	+ 1	− 2	+ 4	+ 8	−1	+11
Scranton	0	+4	−2	+16	− 6	+ 3	+ 6	+ 7	−2	+13
Trenton	+1	+4	+3	+15	+10	− 5	+ 8	− 7	+9	+ 4
Wilkes-Barre	−1	+1	−2	+13	− 7	−12	+ 3	0	−7	+ 5
Wilmington	−1	+5	−1	+ 7	− 3	0	+ 3	+15	−5	+ 8
York	0	+3	0	+11	0	0	+ 6	+14	−2	+14

*Not restricted to corporate limits of cities but covers areas of one or more counties.